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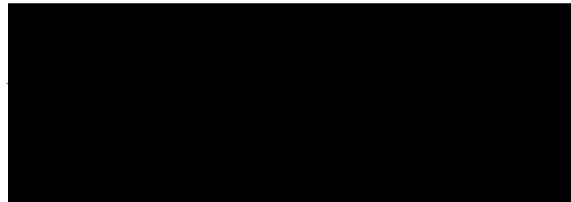
24 July 1959

Ch/E

KRA Contribution to Annual Report to the NSC on the Status of
Foreign Intelligence Programs

In accordance with your request of 21 July, I am submitting
herewith the KRA contribution to the Agency's annual report to the
NSC.

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Economic Intelligence

a. Economic intelligence on the Sino-Soviet Bloc continued to improve during the year, both because of the further refinement of techniques of analysis and the continued availability of a substantial body of current economic data from open sources. During the year the USSR made available for the first time detailed trade statistics (for the years 1956 and 1957) and a complete transcript of a meeting of the Central Committee of the Communist Party (December, 1958), a continuation of the post-Stalin liberalization of the release of economic information. In addition, a number of East-West exchanges produced both new and confirmatory intelligence information.

b. Although Communist leaders continued to experiment with changes in economic policy, continuing analysis of Soviet experience with the sweeping economic reorganization of 1957 and other basic measures has produced a better understanding of changes and has reduced or eliminated the uncertainties which they formerly introduced into our work. Contributing to this improvement were a joint State-CIA appraisal of the Soviet industrial reorganization and an EIC sponsored study of Soviet policy, performance, and prospects in the field of agriculture.

c. Despite improvement in analytical techniques and an intensified program of intelligence research on total Soviet military expenditures and the size, composition and cost of Soviet military programs, serious gaps in our information continue to handicap this research. Particular problems in this regard relate to the scope of activities covered by the

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explicit Soviet defense budget and the economic impact and magnitude of the Soviet missiles program. The absence of sufficient data on over-all Soviet requirements for electronics equipment and other strategic equipment necessary for the Soviet guided missile and atomic energy programs and the production of military end items still represents a serious hindrance to our research effort. New sources of intelligence are beginning to yield very useful though fragmentary information in some of these fields. During the past year, the coordination collection programs inaugurated in 1958 which emphasized close contact with both covert and overt collectors were expanded and are providing important additional intelligence on Soviet guided missile production and deployment activities.

d. The difficulties created by sparse information were compounded in the case of China by the adoption of Communism and the "Leap Forward" program, which led to the widespread use of small scale production units and to a deterioration in the quality of Chinese statistics. Both of these conditions have made the analysis of the Chinese economic position extremely difficult. Although we are certain that Chinese claims of great increases in production during 1958 are exaggerated in many instances, we often have no way of determining precisely the degree of exaggeration. This difficulty is particularly acute in the industries where small units contributed a substantial fraction of total output.

e. During the year, the USSR announced a Seven Year Plan for the years 1959 through 1965. The original announcements of the Seven Year Plan

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goals and reports of progress toward those goals have been the subject of close scrutiny. Our analysis suggests that the USSR will probably fulfill most of the objectives set for major sectors of the economy.

r. Bloc activities in underdeveloped areas of the Free World continued to command priority attention, particularly in certain countries of the Near and Middle East, where the Sino-Soviet Bloc has been exerting a major effort. Economic research in this field was expanded during the year to include, in addition to the EIC biweekly and semi-annual reports, contributions to several national intelligence estimates.

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